



A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Compliance Review

# **Yuma Elementary School District No. 1**

Year Ended June 30, 2003

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STATE OF ARIZONA  
OFFICE OF THE  
**AUDITOR  
GENERAL**

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**Debra K. Davenport**  
Auditor General

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

August 26, 2004

Governing Board  
Yuma Elementary School District No. 1  
450 6th Street  
Yuma, AZ 85364-2973

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Chief Financial Officer in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

In addition, my office is currently conducting a performance audit of the District, which will include the Yuma Educational Consortium Transportation Agreement.

Sincerely,

Debra K. Davenport  
Auditor General

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# INTRODUCTION

Yuma Elementary School District No. 1 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$74 million received in fiscal year 2002-03 to provide this education.

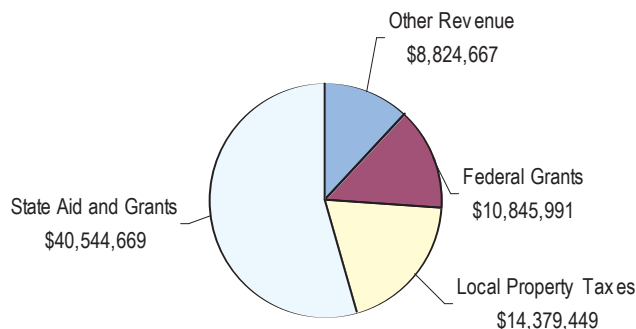
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.

## District Facts Fiscal Year 2003

County: Yuma  
Number of Schools: 17

Number of Students: 9,646  
Grade Levels: K-8



Source: Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2002-03 and Yuma Elementary School District No. 1 Comprehensive Annual Financial Report for the year ended June 30, 2003.

# The District should maintain and report accurate financial information

For the fourth consecutive fiscal year, the District's cash balances at year end did not agree to the County Treasurer's records.

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District also needs to report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records, budget, and Annual Financial Report (AFR) are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District did not ensure that its records of cash balances were reconciled to the County Treasurer's records by the County School Superintendent (CSS). As a result, the amount of the unreconciled difference has fluctuated over the past 4 years, indicating that errors continue to occur in the District's or County Treasurer's records that are not being identified and corrected.

In addition, the District incorrectly coded federal revenues in the accounting records and made transfers between funds that were not authorized by Arizona Revised Statutes. Further, the District did not include all available resources for the Classroom Site Funds in its fiscal year 2002-03 adopted budget, nor did the District report budgeted expenditures for the Soft Capital and Classroom Site Funds and capital assets accurately on its AFR.

## Recommendations

The following procedures can help the District record and report accurate financial information:

- Ensure the CSS reconciles the District's records of cash balances to the County Treasurer's records at least monthly, resolves all differences, and makes appropriate corrections.
- Classify all revenues in accordance with the USFR Chart of Accounts.
- Transfer monies between funds only when specifically authorized by statute.
- Ensure that prior-year unexpended budget balances in the Classroom Site Funds are carried forward to the following year's budget.
- Require a second employee to verify that amounts reported on the AFR agree to the District's adopted budget, and to the accounting records before it is submitted to the CSS and the Arizona Department of Education.

A list of authorized interfund transfers can be found on USFR pages III-F-1 through 3.

# The District should establish stronger controls over the Transportation Consortium Fund

State law allows school districts to enter into contracts or agreements with other entities to jointly exercise any powers common to the contracting parties, such as student transportation services. Through such agreements school districts have been able to obtain goods and services at better prices than if they were to obtain them individually. Yuma Elementary School District acts as the fiscal agent for the Yuma Educational Consortium Transportation Agreement and accounts for the fiscal operations of the Consortium in the Transportation Consortium Fund. As the fiscal agent, it is essential that the District keep accurate accounting records of the Consortium; prepare monthly financial reports and provide them to the other participants; and ensure that all users share the costs of the services appropriately. However, the District did not accomplish these objectives. Specifically, the District billed users based on estimated costs rather than actual costs, resulting in deficit balances in the Fund. Additionally, the Consortium's agreement did not include instructions on how to remedy possible deficits when they arise.

The District expended more than \$925,000 over 4 years to subsidize operating deficits of the Transportation Consortium for which it acted as fiscal agent.

In fiscal year 2002-03, to reduce the deficit, the District made an additional payment over and above its annual fees to the Consortium of \$498,000, bringing total subsidies over the last 4 years to more than \$925,000. The District improperly recorded the fiscal year 2002-03 payment as a reduction of program cost in the Fund, which understated the program's total cost. Further, these monies were designated for the District's estimated computer services consortium payment owed to Yuma Union High School District, which remained unpaid at year end. Finally, the District did not correctly record employee-benefit expenditures in the Transportation Consortium Fund and did not provide participants with monthly financial reports.

## Recommendations

The following policies and procedures can help the District effectively manage the Transportation Consortium Fund:

- Amend the Consortium's agreement to include a method for eliminating deficits.
- Bill participants for actual costs rather than estimates.
- Record cash payments received from the Consortium's participants as receipts rather than as cost reductions in the fund.
- Ensure that the actual costs for employee benefits are recorded rather than estimated costs.
- Provide the Consortium's participants with monthly financial reports.

## The District must follow competitive purchasing requirements

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bidding threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not follow the School District Procurement Rules or the USFR guidelines for purchases. Specifically, the District did not always obtain competitive sealed bids for purchases that exceeded the sealed bidding threshold and did not always obtain oral or written price quotations for purchases requiring them.

### Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for purchases of construction, materials, or services that individually or in the aggregate would exceed \$32,899.
- Obtain oral price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$15,000 and \$32,899. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

## The District's controls over its capital assets should be strengthened

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate lists of these assets and to ensure they are properly identified and accounted for. However, the District did not reconcile capitalized acquisitions to capital expenditures or reconcile the current year's list to the prior year's list. In addition, the District did not properly value lease-purchased assets on the list. Further, the District did not follow the Arizona Administrative Code (AAC) or USFR guidelines when disposing of assets.

School District Procurement Rules provide the requirements for competitive sealed bids and proposals.

Guidelines for oral and written price quotations can be found on USFR page VI-G-8 and in USFR Memorandum No. 209.

## Recommendations

The following procedures can help the District improve controls over its capital assets and ensure that its capital assets list is accurate and complete:

- Reconcile capitalized acquisitions to capital expenditures to ensure all current-year acquisitions are recorded on the capital assets list.
- Reconcile the prior year's capital assets list to the current year's list, and make all necessary corrections.
- Record lease-purchases on the capital assets list at the lesser of the fair market value at the inception of the lease, or the present value of the net minimum lease payments (usually the principal amount) at the beginning of the lease term.
- Obtain Governing Board approval to dispose of capital assets.
- When disposing of assets by auction, advertise auctions at least twice prior to the auction date in a newspaper of the County. Advertisements must be at least 7 days apart.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital asset additions to capital expenditures.

For the requirements governing the disposal of capital assets see USFR page VI-E-6 and AAC R7-2-1131.

## The District should improve controls over student activities monies

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, the District disbursed student activities monies without the student clubs' approval. In addition, monies raised jointly with the parent teacher organization that should have been allocated between the two groups was deposited solely in the Student Activities Fund.

Student activities monies were at risk of misuse since disbursements were not approved by student clubs.

## Recommendations

The following procedures can help the District strengthen control over student activities monies:

- Each student club should approve their disbursements and document the approval in their meeting minutes.
- Allocate proceeds from joint fund-raising projects to other entities based on a reasonable allocation method.
- Deposit only monies belonging to students in the Student Activities Fund.